CITADEL
Group of Funds

Citadel Diversified Investment Trust

Citadel S-1 Income Trust Fund

Citadel HYTES Fund

Citadel SMaRT Fund

Citadel Premium Income Fund

Series S-1 Income Fund

Income & Equity Index Participation Fund

Energy Plus Income Trust

Citadel Stable S-1 Income Fund

Sustainable Production Energy Trust

Equal Weight Plus Fund

CGF Resource 2006 Flow-Through Limited Partnership

Financial Preferred Securities Corporation

Citadel Premium Income Fund

ANNUAL REPORT 2006

Citadel Premium Income Fund

Citadel Premium Income Fund (the "Fund" or "Citadel Premium") is a closed-end investment trust which was formed and began trading on July 20, 2006 as a result of the merger of three Citadel Funds – MYDAS Fund, Citadel Multi-Sector Income Fund and Citadel Income & Growth Fund. The Fund does not have a fixed termination date but may be terminated at any time upon not less than 90 days written notice to the Administrator with the prior approval of the unitholders of the Fund by special resolution passed at a meeting called for such purpose.

For the period from July 20, 2006 to December 31, 2006, Citadel Premium paid total distributions of $0.51 per unit based on monthly distributions of $0.085 per unit.

INVESTMENT HIGHLIGHTS:

	2006
Net Asset Value per Unit (1)	**$10.74**
Market Price per Unit (1)	**$10.14**
Trading Premium (Discount)	**(5.6%)**
Cash Distributions per Unit (2)	**$0.51**
Market Capitalization ($ millions)	**$614.8**

(1) Net asset value and market price are based on year end values.

(2) First monthly distribution had a record date of July 31, 2006 and was paid August 15, 2006.

Management Report of Fund Performance

(March 21, 2007)

This annual report for the period from commencement of operations on July 20, 2006 to December 31, 2006 includes both the management report of fund performance, containing financial highlights, and the audited financial statements of Citadel Premium Income Fund (the "Fund" or "Citadel Premium").

Unitholders may contact us by calling toll-free 1-877-261-9674 or by visiting our website at www.citadelfunds.com to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure or quarterly portfolio disclosure.

INVESTMENT OBJECTIVES AND STRATEGIES

Premium's investment objectives are to provide unitholders with monthly cash distributions, the opportunity for capital appreciation and to distribute the net assets of the Fund to unitholders on the termination of the Fund. The Fund will seek to achieve these investment objectives by investing in an actively managed portfolio of Canadian income funds, common shares and other income securities.

RISK

There are a number of risks associated with an investment in Citadel Premium Income Fund. The principal risks include, but are not limited to, market and income risk. Market risk is the exposure to market price changes in the securities held within the portfolio which have a direct effect on the net asset value of the Fund. Income risk arises from a number of factors related to the operational performance of the issuers of the securities held in the Fund's

portfolio. These risks include the effects of fluctuations in commodity prices, foreign currency conversion rates and interest rates and include general business operation risks, any of which may affect the issuers' income and as a result reduce distributions to its unitholders and the value of its units. Diversification and active management by the Fund's investment manager of the securities held in the portfolio may reduce these risks.

On October 31, 2006 the Federal Minister of Finance (the "Finance Minister") announced a proposal (the "Trust Taxation Plan") to apply a tax at the trust/partnership level on distributions of certain income from publicly traded mutual fund trusts and partnerships at rates of tax comparable to the combined federal and provincial corporate tax and to treat such distributions as dividends to the unitholders. The Finance Minister said existing trusts and partnerships would have a four-year transition period and generally would not be subject to the new rules until 2011. Until such rules are released in legislative form and passed into law it is uncertain what the impact of such rules will be to Canadian income funds (including publicly traded partnerships) and their investors. However, assuming the Trust Taxation Plan is ultimately enacted in the form proposed, those Canadian income fund issuers in which the Trust invests (other than real estate investment trusts that meet prescribed conditions under the new rules) will be subject to the Trust Taxation Plan commencing in 2011 and the implementation of such proposal would be expected to result in adverse tax consequences to such Canadian income funds and to adversely impact cash distributions from such Canadian income funds to the Trust. Based on the composition of the Trust's Portfolio, it is not expected that the Trust itself would be considered a "specified investment flow-through" under the Trust Taxation Plan, and therefore it is expected that the Trust itself will continue not to be directly liable for any material amount of income tax.

RESULTS OF OPERATIONS

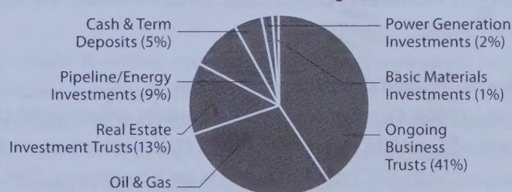
Citadel Premium Income Fund was created by the merger of three existing Citadel Funds – MYDAS Fund, Citadel Multi-Sector Income Fund and Citadel Income & Growth Fund ("Merging Funds"). Upon completion of the merger, the Fund commenced trading on the Toronto Stock Exchange on July 20, 2006 with a net asset value of $732.6 million or $12.01 per unit. During the period from inception to December 31, 2006, the Fund saw its net assets decline to $650.9 million or $10.74 per unit at December 31, 2006 due primarily due to portfolio devaluations created by the Government's Trust Taxation Plan.

The Fund's unit price also closed down from an initial closing price of $11.35 per unit on July 20, 2006 to $10.14 per unit at December 31, 2006. Citadel Premium's unit price decline plus monthly cash distributions produced a negative 6.4% total return for the period, while the Fund generated a negative 6.5% total return on a net asset value basis. By comparison, the S&P/TSX Income Trust Index decreased by 8.3% over the same period.

Total revenue for the Fund's partial year of operation was $33.6 million, which covered the period from July 20, 2006 to December 31, 2006. Administrative and investment manager fees, which are paid in partially in units and partially in cash and are calculated in reference to the Fund's net asset value, totaled $2.8 million for the period. Trailer fees, which are also calculated in reference to the Fund's net asset value, were $1.4 million for the period while general and administration costs, including other expenses, totaled $0.38 million. After total expenses of $4.6 million, the Fund generated net investment income of $29.0 million or $0.48 per unit for the period from inception to December 31, 2006.

The Fund's investment manager, Fiera YMG Capital Inc., made various changes to the portfolio as it rationalized the combined portfolio of the predecessor merging funds. As a result, the Fund realized losses of $9.6 million on the sale of investments during the period. Primarily as a result of the Government's announcement of its Trust Taxation Plan in October 2006, the Fund suffered significant unrealized losses of $67.1 million from

Portfolio Holdings



As at December 31, 2006

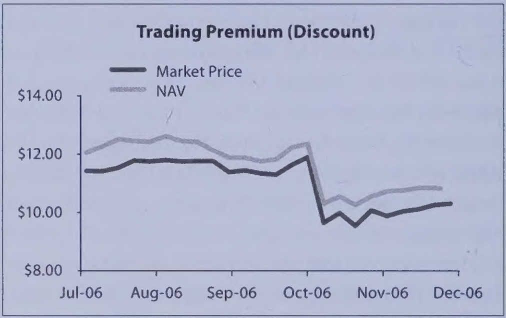
inception to year end. Despite net investment income of $29.0 million, the realized and unrealized losses contributed to Fund's total results of operations of negative $47.7 million or negative $0.79 per unit over the period.

For the period from inception to December 31, 2006, Citadel Premium paid six monthly cash distributions to unitholders of $0.085 per month for a total of $30.9 million or $0.51 per unit.

Citadel Premium maintained a conservative cash position over most of the period due to the unsettled market conditions within the income fund market with cash representing almost 5% of the Fund's net assets.

TRADING PREMIUM / DISCOUNT TO NET ASSET VALUE

For the period from inception to December 31, 2006, Citadel Premium's unit price traded below its net asset value at an average discount of 5.8%. With the widening discount, the Fund repurchased 1,074,900 units at an average cost of $10.78 in 2006 under its mandatory repurchase program. Under the Fund's mandatory repurchase program, the Fund is obligated to repurchase units offered for sale at a discount to net asset value of greater than 5%, subject to 1.25% per quarter of the units outstanding.



RECENT DEVELOPMENTS

At Special Meetings of the unitholders of the Merging Funds held on September 14, 2005 and October 12, 2005, unitholders approved a special resolution authorizing the board of directors of such funds to merge with other similar Citadel Funds. Subsequently, the board of directors determined that each of the Merging Funds had similar investment objectives and that such merger would result in lower general and administration expenses on a combined basis.

Effective the close of business on July 19, 2006, MYDAS Fund, Citadel Multi-Sector Income Fund and Citadel Income & Growth Fund were merged into a new fund, Citadel Premium Income Fund, with unitholders of the Merging Funds receiving units of the Citadel Premium on a relative net asset value basis. The merger has been recorded using the purchase method of accounting for business combinations with Citadel Premium issuing 61,000,000 units in exchange for the net assets on each of the Merging Funds on July 19, 2006.

On December 29, 2006, the Fund completed an exchange offering whereby holders of qualified investments could exchange their units for units of the Fund. As a result of this offering, the Fund issued 484,828 units at $10.72 per unit for a total value of $5.2 million.

During the period from commencement of operations on July 20, 2006 to the end of 2006, the trust sector experienced pronounced periods of volatility and sub-sector performance variance in addition to the valuation destruction created by the Government's Trust Taxation Plan. Despite the current unsettled market conditions, the Fund's investment manager feels all negative news has been priced into the trust sector and as a result is optimistic about the opportunities to generate strong returns for the Fund in 2007. Based upon the Fund's current portfolio and analysts' estimates of distributions, Citadel Premium expects to maintain its monthly distribution rate of $0.085 per unit for 2007.

Investment Fund Governance Legislation

During 2006, Canadian securities regulators passed legislation requiring independent oversight over the management of Canadian investment funds. National Instrument 81-107 Independent Review Committee for Investment Funds ("NI 81-107") came into effect on November 1, 2006. Under NI 81-107, an Independent Review Committee ("IRC") is required to be established by May 1, 2007. The main responsibility of the IRC is to govern over perceived conflicts of interest between investment funds, their managers and related third parties. Policies and procedures

are to be adopted no later than November 1, 2007 and investment funds must be in full compliance of NI 81-107 at that time. Citadel Premium continues to research and develop its IRC and expects to meet each implementation date requirement.

New CICA Financial Instrument Standard

The Canadian Institute of Chartered Accountants has recently issued Section 3855, "Financial Instruments – Recognition and Measurement". Of importance to investment funds are new definitions and requirements for determining the fair value of financial instruments, particularly investments. Since current securities regulations require that investment funds calculate Net Asset Value ("NAV") in accordance with Generally Accepted Accounting Principles ("GAAP"), This new standard impacts the way in which net asset value is determined. For securities quoted on an open market, the new standard requires the use of bid prices for an asset held as opposed to the closing prices currently used. Bid prices are normally less than closing prices which will result in lower net asset values. Currently, transaction costs such as broker fees are added to the cost base of investments purchased and deducted from the proceeds of investments sold. The new standard requires that these costs be expensed. Although this does not affect the overall NAV, it will increase expenses and the management expense ratio. The new standard is effective January 1, 2007 for Citadel Premium. Canadian securities regulators have been granted relief from the requirement to calculate NAV for purposes other than financial statements in accordance with this standard, allowing them and investment fund managers the opportunity to further study the issue. This relief is in effect until the earlier of September 30, 2007 and the date on which legislation with respect to calculating NAV for purposes other than financial statements is changed. Until that time, Citadel Premium intends to calculate NAV under the old method, specifically using closing rather than bid prices, for all purposes other than financial statements.

FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements that involve substantial known and unknown risks and uncertainties, some of which are beyond our control, including the impact of general economic conditions in Canada and the United States, industry conditions, changes in laws and regulations, including the Canadian Income Tax Act, fluctuations in interest rates, commodity prices and foreign exchange, stock market volatility, and market valuations of income and royalty trusts. Our actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward looking statements and, accordingly, no assurances can be given that any of these events anticipated by the forward looking statements will transpire or occur, or if any of them do, what benefits, including the amount of proceeds, that we will derive therefrom.

RELATED PARTY TRANSACTIONS

CGF Funds Management Ltd. is the administrator of Citadel Premium, which is a member of the Citadel Group of Funds. CIFSG Funds Inc. provides administrative services to the administrators of the Citadel Group of Funds on a cost recovery basis. All non-fund specific costs are allocated among the Citadel Group of Funds on a relative net asset value basis.

Pursuant to the administrative services agreement, total annual administrative and investment management fees are based upon 1.1% of the aggregate average weekly net asset value of the Fund. The fee is payable in units or cash at the option of the administrator, monthly in arrears. Currently, the fee is paid 75% in units and 25% in cash. The administrator is also reimbursed for all general and administrative expenses that relate to the operation of the Fund.

In conjunction with the merger, the administrator of Citadel Premium negotiated a settlement payment on termination of the investment manager on behalf of the three merging funds. Citadel Premium initially funded the settlement amount of $6.2 million, however the administrator has agreed to compensate the Fund for the amount by way of a reduction in the annual management fee from 1.1% to 0.9%, contingent on certain conditions. This reduction of the annual mangement fee has been reflected in administrative and investment management fee expense for the period ended December 31, 2006.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help the reader understand the Fund's financial performance. This information is derived from the Fund's audited financial statements for the period from July 20, 2006 to December 31, 2006.

Net Asset Value (NAV) per Unit

	2006
NAV, beginning of period	$ 12.01
Increase (decrease) from operations:	
Total revenue	0.55
Total expenses	(0.07)
Realized gains (losses)	(0.16)
Unrealized gains (losses)	(1.11)
Total increase (decrease) from operations	(0.79)
Distributions:	
From net investment income	0.51
Total cash distributions	$ 0.51
NAV, end of period	$ 10.74

(1) The Fund commenced operations on July 20, 2006, upon completion of the merger.

Net asset value ("NAV") and cash distributions are based on the actual number of units outstanding at the time. The increase (decrease) from operations is based on the weighted average number of units outstanding over the financial period. This schedule is not a reconciliation of NAV since it does not reflect unitholder transactions as shown on the Statement of Changes in Net Assets and accordingly columns may not add.

Ratios and Supplemental Data

	2006
Net assets ($ 000's)	$650,909
Number of units outstanding	60,632,251
Management expense ratio	1.46%
Portfolio turnover ratio	31.14%
Trading expense ratio	0.29%
Closing market price	$10.14

Management expense ratio is based on total expenses for the period and is expressed as an annualized percentage of weekly average net assets during the period.

Portfolio turnover ratio is based on the lesser of cost of purchases or proceeds of disposition and is expressed as a percentage of the monthly average portfolio value. The portfolio turnover rate indicates how actively the Fund's investment manager manages the portfolio investments. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

Trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of weekly average net assets during the period.

MANAGEMENT FEES

Pursuant to the administrative services agreement, total annual administrative and investment manager fees are based upon 1.1% of the aggregate average weekly net asset value of the Fund. The fee is payable in units or cash at the option of the administrator, monthly in arrears. The fees are currently paid 75% in units and 25% in cash. Fiera YMG Capital Inc., as investment manager to the Fund, provides investment management services to the Fund in

exchange for its share of the management fee. These fees represent payment for the administrative and investment management services provided to the Fund.

In conjunction with the merger, the administrator of Citadel Premium negotiated a settlement payment on termination of the investment manager on behalf of the three merging funds. Citadel Premium initially funded the settlement amount of $6.2 million, however the administrator has agreed to compensate the Fund for the amount by way of a reduction in the annual management fee from 1.1% to 0.9%, contingent on certain conditions. This reduction of the annual mangement fee has been reflected in administrative and investment management fee expense for the period ended December 31, 2006.

PAST PERFORMANCE

Citadel Premium's performance number represents the compound total return over the period from inception on July 20, 2006 to December 31, 2006. Total return is based upon both the Fund's change in market price and net asset value plus the reinvestment of all distributions in additional units of the Fund. For the stub period from July 20, 2006 to December 31, 2006, the Fund generated total returns of negative 6.4% and negative 6.5% based on market price and net asset value respectively.

The return does not take into account sales, redemptions or income taxes payable that would have reduced return. Past performance of the Fund does not necessarily indicate how it will perform in the future.

COMPOUND RETURN

In the table below are the annual compound returns for Citadel Premium based on market price and net asset value with comparison to the S&P/TSX Capped Income Trust Index for the period from inception to December 31, 2006.

	July 20, 2006 to December 31, 2006
Premium (market price)	(6.41%)
Premium (net asset value)	(6.50%)
S&P/TSX Capped Income Trust Index	(8.29%)

SUMMARY OF INVESTMENT PORTFOLIO

As at December 31, 2006

Net Assets: $650,908,548

Portfolio by Sector	% of Net Assets
Ongoing Business Trusts	40.8%
Oil & Gas Royalty Trusts	29.5%
Real Estate Investment Trusts	12.5%
Pipeline / Energy Investments	9.3%
Power Generation Investments	2.3%
Basic Materials Investments	0.9%
Cash and Term Deposits	4.8%
Liabilities, net of other assets	(0.1%)
Total Net Assets	100.0%

TOP 25 HOLDINGS (as a % of net assets)

Vermilion Energy Trust	5.1%
Enerplus Resources Fund	4.0%
ARC Energy Trust	3.8%
Focus Energy Trust	3.7%
TransForce Income Fund	3.3%
InnVest Reit	2.7%
Crescent Point Energy Trust	2.7%
H&R Reit	2.5%
Telus Corp.	2.4%
IPC U.S. Reit	2.4%
Cineplex Galaxy Income Fund	2.4%
AltaGas Income Trust	2.3%
Yellow Pages Income Fund	2.3%
Primaris Reit	2.2%
Zargon Energy Trust	2.2%
Baytex Energy Trust	2.2%
Arctic Glacier Income Fund	2.0%
Retirement Residences Reit	1.9%
PennWest Energy Trust	1.9%
Keystone North America Inc.	1.9%
Medical Facilities Corp.	1.9%
AG Growth Income Fund	1.9%
Keyera Facilities Income Fund	1.8%
Priszm Income Fund	1.8%
Energy Savings Income Fund	1.8%

The summary of investment portfolio may change due to ongoing portfolio transactions. Quarterly updates are available at www.citadelfunds.com.

Management's Responsibility Statement

The financial statements of Citadel Premium Income Fund have been prepared by CGF Funds Management Ltd. ("CGFML") and approved by the Board of Directors of CGFML. CGFML is responsible for the information and representations contained in these financial statements and the other sections of the annual report.

CGFML maintains appropriate procedures to ensure that relevant and reliable financial information is produced. These statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgments. The significant accounting policies applicable to the Fund are described in Note 2 to the financial statements.

The Board of Directors of CGFML is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Board carries out this responsibility through the Audit Committee, which is comprised of the independent directors of the Board.

The Audit Committee on behalf of CGFML and its Board of Directors has appointed the external audit firm of PricewaterhouseCoopers LLP. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to unitholders their opinion on the financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings.

James T. Bruvall
Chief Executive Officer
CGF Funds Management Ltd.

Darren K. Duncan
Chief Financial Officer
CGF Funds Management Ltd.

March 21, 2007

Auditors' Report to Unitholders

To the Unitholders of Citadel Premium Income Fund

We have audited the statements of net assets and investments of Citadel Premium Income Fund as at December 31, 2006 and the statements of operations and changes in net assets for the period from June 6, 2006, date of inception of the Fund, to December 31, 2006. These financial statements are the responsibility of management of the Fund's Administrator. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets and investments of the Fund as at December 31, 2006 and the results of its operations and the changes in its net assets for the period from June 6, 2006, the date of inception of the Fund, to December 31, 2006 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta
March 21, 2007

Statement of Net Assets

As at December 31	2006
Assets	
Investments, at market	$ 620,160,663
Cash and term deposits	31,183,438
Revenue receivable	5,140,624
Note receivable	460,342
Receivable for investments sold	308,871
Prepaid expenses	3,969
	$ 657,257,907
Liabilities	
Accounts payable and accrued liabilities	794,262
Payable for investments purchased	401,356
Distributions payable	5,153,741
	6,349,359
Net Assets representing Unitholders' Equity	$ 650,908,548
Units outstanding (note 3)	60,632,251
Net asset value per unit	$ 10.74

see accompanying notes

Signed on behalf of the Board,

Harold P. Milavsky
Chairman of the Board

James T. Bruvall
Director and Chief Executive Officer

Statement of Operations

For the Period June 6, 2006 to December 31, 2006	
Revenue	
Distribution income	$ 33,180,538
Interest income	466,138
	33,646,676
Expenses	
Administrative and investment manager fees (note 4)	2,837,903
Trailer fee (note 5)	1,393,073
General and administration costs	248,965
Reporting costs	50,554
Custodial fees	37,766
Audit fees	25,175
Directors' fees	18,025
Legal fees	2,759
Trustee fees	30
	4,614,250
Net investment income	29,032,426
Net realized gain (loss) on sale of investments (note 6)	(9,618,224)
Net change in unrealized gain (loss) on investments	(67,061,310)
Total results of operations	$ (47,647,108)
Results of operations per unit [1]	
Net investment income	$ 0.48
Net realized gain (loss) on sale of investments	(0.16)
Net change in unrealized gain (loss) on investments	(1.11)
	$ (0.79)

[1] Based on the weighted average number of units outstanding.

See accompanying notes

Statement of Changes in Net Assets

For the Period June 6, 2006 to December 31, 2006	
Net Assets – beginning of period	**$ –**
Operations:	
Net investment income	**29,032,426**
Net realized gain (loss) on sale of investments	**(9,618,224)**
Net change in unrealized gain (loss) on investments	**(67,061,310)**
	(47,647,108)
Unitholder Transactions: (note 3)	
Issuance of trust units, net	**741,071,881**
Repurchase of trust units	**(11,591,518)**
	729,480,363
Distributions to Unitholders: (note 7)	
From net investment income	**(30,891,634)**
Return of capital	**(33,073)**
	(30,924,707)
Net Assets – end of period	**$ 650,908,548**
Distributions per unit	**$ 0.51**

see accompanying notes

Statement of Investments

	December 31, 2006			
	Number of Units Held	Cost	Market Value	% of Market
Ongoing Business Trusts				
A&W Revenue Royalties Income Fund	*1,000*	$ 13,140	$ 12,580	
AG Growth Income Fund	*801,300*	12,431,499	12,019,500	
Aeroplan Income Fund	*201*	3,435	3,411	
Altus Group Income Fund	*401,000*	5,889,931	4,282,680	
Amtelecom Income Fund	*1,300*	14,061	14,430	
Arctic Glacier Income Fund	*1,061,578*	12,888,199	13,290,957	
Bell Aliant Regional Comm. Income Fund	*1,576*	42,170	42,489	
The Brick Group Income Fund	*1,500*	12,077	12,825	
CI Financial Income Fund	*1,000*	26,464	26,720	
CML Healthcare Income Fund	*132,700*	1,943,632	1,851,165	
Canexus Income Fund	*10,100*	65,378	69,084	
Canwest Mediaworks Income Fund	*1,800*	12,053	12,420	
Cargojet Income Fund	*2,000*	16,864	17,500	
Chemtrade Logistics Income Fund	*1,256,300*	12,764,008	10,113,215	
Cineplex Galaxy Income Fund	*1,132,900*	15,022,254	15,350,795	
Colabor Income Fund	*375,000*	4,668,750	3,337,500	
The Consumers' Waterheater Income Fund	*1,800*	24,276	24,156	
Data Group Income Fund	*4,900*	38,521	41,748	
Davis + Henderson Income Fund	*201,250*	3,676,827	3,111,325	
E.D. Smith Income Fund	*573,625*	4,793,737	3,040,212	
F.P. Newspapers Income Fund	*1,800*	18,367	19,062	
First National Financial Income Fund	*500*	6,373	6,850	
Futuremed Healthcare Income Fund	*623,100*	7,336,588	5,981,760	
Gateway Casinos Income Fund	*1,500*	26,327	25,650	
Gienow Windows & Doors Income Trust	*541,700*	2,176,695	1,966,371	
Golf Town Income Fund	*410,000*	4,346,000	5,330,000	
Granby Industries Income Fund	*737,000*	3,987,170	2,432,100	
Home Equity Income Fund	*500*	6,119	6,130	
IBI Income Fund	*299,400*	4,190,848	3,622,740	
Jazz Air Income Fund	*2,900*	24,886	24,766	
K-Bro Linen Income Fund	*173,000*	2,594,930	1,897,810	
KCP Income Fund	*1,150,300*	11,709,251	8,558,232	
Keystone North America Inc.	*1,570,300*	12,811,714	12,059,904	
Lakeport Brewing Income Fund	*1,000*	20,377	21,800	
Livingston International Income Fund	*290,700*	7,212,651	6,052,374	
Medical Facilities Corp.	*1,337,967*	12,160,665	12,041,703	
Morneau Sobeco Income Fund	*486,000*	6,291,345	5,059,260	
New Flyer Industries Inc.	*537,100*	4,494,074	4,930,578	
Newalta Income Fund	*3,400*	92,027	95,710	
Newport Partners Income Fund	*10,620*	59,107	61,490	
OFI Income Fund	*425,600*	3,915,181	3,736,768	
PDM Royalties Income Fund	*1,600*	13,833	15,200	
PRT Forest Income Fund	*613,200*	6,898,500	5,052,768	
Pizza Pizza Royalty Income Fund	*478,200*	4,275,166	3,830,382	
Pollard Banknote Income Fund	*2,000*	17,752	18,400	
Prime Restaurants Royalty Income Fund	*1,830*	12,742	13,377	
Priszm Income Fund	*981,300*	11,236,209	11,510,649	
Resolve Business Outsourcing Income Fund	*519,200*	4,121,619	4,413,200	
Richards Packaging Income Fund	*1,021,300*	8,170,101	8,578,920	
Rogers Sugar Income Fund	*3,043,750*	12,292,284	11,201,000	
Royal LePage Franchise Services Income Fund	*250,000*	3,385,000	3,337,500	
Second Cup Royalty Income Fund	*528,000*	5,691,420	4,815,360	
Sir Royalty Income Fund	*1,900*	16,185	16,378	
Sleep Country Canada Income Fund	*2,000*	52,321	55,580	
Somerset Entertainment Income Fund	*599,400*	1,842,448	1,396,602	

(continued on following page)

	December 31, 2006			
	Number of Units Held	Cost	Market Value	% of Market
(continued from previous page)				
Specialty Foods Group Income Fund	*12,000*	977	1,080	
Spinrite Income Fund	*418,300*	527,963	472,679	
Sterling Shoes Income Fund	*150,000*	2,214,343	2,317,500	
Strongco Income Fund	*300*	3,512	3,564	
Student Transport of America Inc.	*526,500*	6,028,425	5,923,125	
Superior Plus Income Fund	*551,700*	6,013,257	5,908,707	
Supremex Income Fund	*52,800*	426,281	447,216	
Telus Corp.	*300,000*	18,134,931	15,609,000	
Teranet Income Fund	*33,450*	292,514	297,371	
TransForce Income Fund	*1,566,317*	24,477,023	21,129,616	
UE Waterheater Income Fund	*17*	231	240	
Versacold Income Fund	*377,850*	3,675,456	3,396,872	
Voxcom Income Fund	*4,000*	36,012	36,600	
Yellow Pages Income Fund	*1,143,930*	17,486,049	14,722,379	
Yellow Pages Income Fund – warrants	*35,000*	7,000	2,100	
		295,177,524	265,129,135	40.7%
Real Estate Investment Trusts				
Chartwell Seniors Housing Reit	*1,500*	20,315	20,910	
H&R Reit	*686,250*	14,827,347	16,531,762	
Huntingdon Reit	*1,566,000*	3,445,200	3,601,800	
IPC U.S. Reit	*1,240,545*	12,945,572	15,382,758	
InnVest Reit	*1,285,000*	16,859,200	17,733,000	
Legacy Hotels Reit	*300*	2,810	2,844	
Morguard Reit	*62,263*	725,817	855,494	
Northern Property Reit	*700*	19,223	19,565	
Primaris Retail Reit	*759,600*	12,995,356	14,341,248	
Retirement Residences Reit	*1,525,032*	11,437,764	12,627,265	
Royal Host Reit	*215*	1,388	1,408	
Scotts Reit	*40,100*	408,786	411,827	
Sunrise Senior Living Reit	*900*	8,998	9,594	
Whiterock Reit	*50*	629	665	
		73,698,405	81,540,140	12.5%
Oil & Gas Royalty Trusts				
ARC Energy Trust	*1,102,850*	30,366,251	24,593,555	
Advantage Energy Income Fund	*835*	11,354	10,379	
Baytex Energy Trust	*630,200*	15,282,350	14,040,856	
Bonavista Energy Trust	*220,000*	7,777,000	6,193,000	
Bonterra Energy Income Trust	*39,300*	1,247,380	1,004,901	
Canadian Oil Sands Trust	*500*	16,449	16,305	
Canetic Resources Trust	*375,798*	8,617,320	6,178,119	
Crescent Point Energy Trust	*980,000*	21,707,000	17,248,000	
Duke Energy Income Fund	*4,950*	47,887	51,480	
Enerplus Resources Fund	*513,783*	30,633,126	26,038,522	
Focus Energy Trust	*1,320,700*	28,859,914	24,010,326	
Harvest Energy Trust	*576*	15,086	15,108	
NAL Oil & Gas Trust	*61,800*	1,238,514	760,758	
Paramount Energy Trust	*343,500*	6,440,625	4,259,400	
Pengrowth Energy Trust	*6,808*	135,500	135,752	
PennWest Energy Trust	*349,600*	13,386,201	12,435,272	
Peyto Energy Trust	*775*	13,409	13,717	
PrimeWest Energy Trust	*463*	11,247	9,954	
Progress Energy Trust	*471,000*	7,247,288	5,920,470	
Provident Energy Trust	*5,500*	70,849	70,620	
Shiningbank Energy Income Fund	*100,000*	1,464,890	1,285,000	
Trilogy Energy Trust	*14*	157	160	
Vermilion Energy Trust	*955,000*	31,291,546	33,425,000	
Zargon Energy Trust	*567,500*	17,845,869	14,068,325	
		223,727,212	191,784,979	29.4%

(continued on following page)

	December 31, 2006			
	Number of Units Held	Cost	Market Value	% of Market
(continued from previous page)				
Basic Materials Investments				
Canfor Pulp Income Fund	*29*	346	358	
Great Lakes Carbon Income Fund	*291,000*	2,763,252	3,288,300	
Noranda Income Fund	*238,500*	3,041,130	2,349,225	
		5,804,728	5,637,883	0.9%
Power Generation Investments				
Atlantic Power Corporation	*1,016*	10,866	11,471	
Countryside Power Income Fund	*1,318,200*	12,633,581	9,161,490	
MacQuarie Power & Infrastructure Income Fund	*2,100*	20,677	21,105	
Northland Power Income Fund	*205,550*	2,957,757	2,686,538	
Primary Energy Recycling Corp.	*303,200*	3,032,052	3,168,440	
TransAlta Power, L.P.	*21,368*	153,508	159,619	
		18,808,441	15,208,663	2.3%
Infrastructure / Service Investments				
AltaGas Income Trust	*568,700*	15,786,486	14,899,940	
CCS Income Trust	*190,100*	6,986,175	7,176,275	
Enbridge Income Fund	*1,000*	12,990	13,200	
Energy Savings Income Fund	*854,900*	15,156,807	11,498,405	
Essential Energy Services Trust	*150*	782	781	
Fort Chicago Energy Partners L.P.	*1,305*	15,015	14,968	
Inter Pipeline Fund	*909,800*	9,255,861	8,224,592	
Keyera Facilities Income Fund	*720,500*	14,589,435	11,989,120	
Precision Drilling Trust	*500*	14,331	13,500	
TerraVest Income Fund	*7,450*	44,730	47,531	
Trinidad Energy Services Income Trust	*475,800*	7,726,992	6,566,040	
Wellco Energy Services Trust	*2,200*	14,703	15,994	
		69,604,307	60,460,346	9.3%
Citadel Premium units – repurchased for cancellation	*39,400*	401,356	399,516	0.0%
Investments		687,221,973	620,160,663	95.2%
Cash and Term Deposits		31,183,438	31,183,438	4.8%
Total		$ 718,405,411	$ 651,344,100	100.0%

All portfolio holdings are trust units, except the following: TransAlta Power L.P. – limited partnership units; Fort Chicago Energy Partners L.P. – Class A limited partnership units, Medical Facilities Corp and Atlantic Power Corporation – income participating security, New Flyer Industries Inc. – income deposit security, Telus Corp. – common shares.

Notes to Financial Statements

December 31, 2006

1. STRUCTURE OF THE FUND

Citadel Premium Income Fund (the "Fund" or "Premium") is a closed-end investment trust established under the laws of Alberta pursuant to a Declaration of Trust dated as of June 6, 2006 and amended and restated July 13, 2006. The Fund commenced operations on July 20, 2006, when it completed a merger of three Citadel Funds – MYDAS Fund, Citadel Multi-Sector Income Fund and Citadel Income & Growth Income Fund ("Merging Funds").

At Special Meetings of the unitholders of the Merging Funds held on September 14, 2005 and October 12, 2005, unitholders approved a special resolution authorizing the board of directors of such funds to merge with other similar Citadel Funds. Subsequently, the board of directors determined that each of the Merging Funds had similar investment objectives and that such merger would result in lower general and administration expenses on a combined basis.

Effective the close of business on July 19, 2006, MYDAS Fund, Citadel Multi-Sector Income Fund and Citadel Income & Growth Fund were merged into a new fund, Citadel Premium Income Fund, with unitholders of the Merging Funds receiving units of Citadel Premium on a relative net asset value basis. The merger has been recorded using the purchase method of accounting for business combinations with Citadel Premium issuing 61,000,000 units in exchange for the net assets of each of the Merging Funds on July 19, 2006.

The Fund does not have a fixed termination date but may be terminated at any time upon not less than 90 days written notice to the Administrator with the prior approval of the unitholders of the Fund by special resolution passed at a meeting called for such purpose.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the period. Actual results may differ from these estimates. The following is a summary of the significant accounting policies.

(a) Cash and cash equivalents

Cash consists of cash on hand and short term bankers' acceptances with maturities of less than 90 days on acquisition.

(b) Valuation of investments

Investments are stated at market values based on closing market quotations. Average cost is used to compute realized and unrealized gains or losses on investments. Investment transactions are recorded on the trade date.

(c) Canadian income taxes

The Fund qualified as a unit trust within the meaning of the Income Tax Act (Canada). Provided the Fund distributes to its unitholders its net income for tax purposes, the Fund will not generally be liable for income tax under Part 1 of the Income Tax Act (Canada). As all taxable income was allocated to unitholders in 2006, no provision for income taxes has been made in these financial statements.

(d) Investment income

Dividend income is recorded on the ex-dividend date, interest is recognized as earned and distribution income is recorded on the ex-distribution date. Capital gains and losses are recognized on the trade date.

(e) Financial instruments

The fair values of the Fund's financial instruments which are comprised of cash and term deposits, revenue receivable, note receivable, receivable for investments sold, prepaid expenses, accounts payable and accrued liabilities, distributions payable and payable for investments purchased approximate their carrying amount due to the short-term maturity of these instruments.

3. UNITHOLDERS' CONTRIBUTION

Authorized

The authorized capital of the Fund consists of an unlimited number of trust units which are transferable redeemable units of beneficial interest.

Issued and outstanding	**December 31, 2006**	
	Number	**Amount**
Trust units – beginning of period	–	$ –
Issued upon Fund merger	61,000,000	733,782,941
Agents' fees and issue costs	–	(312,589)
Issued for services (note 4)	169,336	1,859,208
Issued under DRIP	52,987	544,965
Issued pursuant to Exchange Offering	484,828	5,197,356
Repurchases of trust units	(1,074,900)	(11,591,518)
Trust units – end of period	60,632,251	$ 729,480,363

The weighted average number of units outstanding for the period ended December 31, 2006 was 60,667,839 units.

The Fund has a mandatory repurchase program whereby units offered for sale at a discount to the Fund's net asset value per unit of greater than 5% are repurchased for cancellation, subject to a maximum of 1.25% in each calendar quarter of the total number of units outstanding at the beginning of each such quarter. For the period ended December 31, 2006, 1,074,900 trust units were repurchased under this program for an average cost of $10.78 per unit.

Unitholders of Premium can acquire additional units by participating in the Distribution Reinvestment Plan ("DRIP"). The DRIP enables unitholders to reinvest their monthly distributions in additional units of the Fund at the 5 day weighted average market price of the Fund's units. For the period ended December 31, 2006, 52,987 units were issued under the DRIP.

On December 29, 2006, the Fund completed an exchange offering whereby holders of qualified investments could exchange their units for units of the Fund. As a result of this offering, the Fund issued 484,828 units at $10.72 per unit for a total value of $5.2 million. The Administrator has agreed to reimburse the Fund for the issue costs pertaining to the exchange offer.

Unitholders have the right to redeem their units on an annual basis in June of each year, commencing June 2007. The redemption value is net asset value less the costs of and associated with selling sufficient investments to meet the redemption amount.

4. ADMINISTRATIVE AND INVESTMENT MANAGER/DIRECTORS' FEES

CGF Funds Management Ltd. ("CGFML") is the administrator of the Fund and Fiera YMG Capital Inc. is the investment manager of the Fund. Pursuant to the administrative services and investment management agreements, total annual administrative and investment management fees are based upon 1.1% of the aggregate average weekly net asset value of the Fund. The fee is payable in units or cash, at the option of the administrator, monthly in arrears. For the period ended December 31, 2006, the fee was paid 25% in cash and 75% in units. For the period ended December 31, 2006, the Fund issued 169,336 trust units and paid $978,695 in cash for a total expense of $2,837,903 in respect of the administrative and investment management fees during the period. The administrative services agreement also provides for the reimbursement of certain expenses incurred by the administrator during the performance of its duties. As at December 31, 2006, included in accounts payable were amounts owed to CGFML of $127,310.

In conjunction with the merger, the administrator of Citadel Premium negotiated a settlement payment on termination of the investment manager on behalf of the three merging funds. Citadel Premium initially funded the settlement amount of $6.2 million, however the administrator has agreed to compensate the Fund for the amount by way of a reduction in the annual management fee from 1.1% to 0.9%, contingent on certain conditions. This reduction of the annual mangement fee has been reflected in administrative and investment management fee expense for the period ended December 31, 2006.

5. TRAILER FEE

Citadel Premium pays a trailer fee to investment dealers calculated and payable quarterly in arrears at an annual rate of 0.40% of the net asset value of the Fund held by unitholders in accounts with investment dealers. For the period ended December 31, 2006, the Fund recorded an expense of $1,393,073 relating to the trailer fee.

6. INVESTMENTS

The net realized gain (loss) on the sale of investments was determined as follows:

	2006
Net proceeds from the sale of securities	$ 216,202,640
Less cost of securities sold:	
Investments at cost – beginning of period	698,426,829
Investments purchased during period	214,616,009
Investments at cost – end of period	(687,221,973)
Cost of investments disposed of during period	225,820,865
Net realized gain (loss) on sale of investments	$ (9,618,224)

7. CASH DISTRIBUTIONS

The Fund pays out monthly cash distributions based upon cash distributions received by the Fund less estimated expenses. For the period ended December 31, 2006, the Fund also distributed a portion of its realized gains and/or return of capital in order to supplement distributions.

	2006
Net investment income for the period	$ 29,032,426
Add fees paid by issuance of units	1,859,208
Capital distributed (cash flow retained)	33,073
Cash distributions	$ 30,924,707
Cash distributions per unit	$ 0.51

8. BROKER COMMISSIONS

For the period ended December 31, 2006, the Fund paid commissions to brokers of $933,122 and they are recorded in the purchase and sale of investments.

Corporate Information

Administrators
Citadel Diversified Management Ltd.
Citadel S1 Management Ltd.
Citadel TEF Management Ltd.
Citadel CPRT Management Ltd.
Citadel Series Management Ltd.
Equity Lift Management Ltd.
N.A. Energy Management Inc.
Stable Yield Management Inc.
Sustainable PE Management Inc.
Equal Weight Management Ltd.
CGF Funds Management Ltd.
CGF Resource FT Funds Management Ltd.
Suite 3500, 350 - 7th Avenue S.W.
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Toll Free: 1 877 261-9674
Fax: (403) 261-8670
Website: www.citadelfunds.com
Email: info@citadelfunds.com

Investment Manager
(CTD.un, SDL.un, CHF.un, CRT.un, SRC.un and CSR.un)
Bloom Investment Counsel, Inc.
Suite 1710, 150 York Street
Toronto, Ontario M5H 3S5

Investment Manager
(EPF.un, SPU.un and CGF Resource 2006)
Galileo Equity Management Inc.
161 Bay Street, Suite 4730
Toronto, Ontario M5J 2S1

Investment Manager
(CPF.un)
Fiera YMG Capital Inc.
1501 McGill College Avenue, Suite 900
Montreal, Quebec H3A 3M8

Rebalancing Advisor
(IEP.un, EQW.un and FPR.pr.a)
Shaunessy Investment Counsel Inc.
Suite 504, 933-17th Avenue S.W.
Calgary, Alberta T2T 5R6

Directors and Officers
Harold P. Milavsky - Chairman of the Board
Micheline Bouchard - Director
Doug D. Baldwin - Director
Kent J. MacIntyre - Director
James T. Bruvall - Director and Chief Executive Officer
Darren K. Duncan - Chief Financial Officer

Trustee
Computershare Trust Company of Canada
Sixth Floor
530 - 8th Avenue S.W.
Calgary, Alberta T2P 3S8

Custodian
CIBC Mellon Global Securities Services Company
320 Bay Street, 6th Floor
Toronto, Ontario M5H 4A6

Legal Counsel
Stikeman Elliott LLP
4300 Bankers Hall West
888 - 3rd Street S.W.
Calgary, Alberta T2P 5C5

Auditors
PricewaterhouseCoopers LLP
3100, 111 - 5th Avenue S.W.
Calgary, Alberta T2P 5L3

Stock Exchange Listings
The Toronto Stock Exchange
Citadel Diversified Investment Trust units: **CTD.un**
Citadel S-1 Income Trust Fund units: **SDL.un**
Citadel HYTES Fund units: **CHF.un**
Citadel SMaRT Fund units: **CRT.un**
Citadel Premium Income Fund units: **CPF.un**
Series S-1 Income Fund units: **SRC.un**
Income & Equity Index Participation Fund units: **IEP.un**
Energy Plus Income Trust units: **EPF.un**
Citadel Stable S-1 Income Fund units: **CSR.un**
Sustainable Production Energy Trust units: **SPU.un**
Equal Weight Plus Fund units: **EQW.un**
Financial Preferred Securities Corporation shares: **FPR.pr.a**
CGF Resource 2006 Flow-Through Limited Partnership units: not listed

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Group of Funds

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